

**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Review of the Virginia Small Business
Development Center Program**

**Staff Briefing
October 9, 2001**

Introduction

2

Staff for this study:

R. Kirk Jonas, Deputy Director

Linda B. Ford, Project Leader

Gerald A. Craver

Presentation Outline

3

- ☒ **Study Overview and Summary of Findings**
- ☐ **Development of the Virginia SBDC Program**
- ☐ **SBDC Performance and Operations**

Study Mandate

4

- **Senate Joint Resolution 233 (2000) directs JLARC to study small business development centers (SBDCs) in Virginia and other locally based centers organized to assist and develop small businesses**
- **The resolution specifically directs staff to examine:**
 - **the policies and procedures governing the formation of SBDCs,**
 - **the existing procedures and criteria for such centers to receive State and federal funding under programs administered by the Virginia Department of Business Assistance, and**
 - **the appropriate degree of control over the operations and personnel decisions of such centers by the department**

National SBDC Program

5

- The SBDC program was established by the federal government in 1980 as a partnership between the educational community, private sector, and federal, state, and local governments. The U.S. Small Business Administration (SBA) oversees this program
- The purpose of the program was to create a broad-based system of assistance to current and prospective small business owners
- Most services are provided at no cost to small business owners

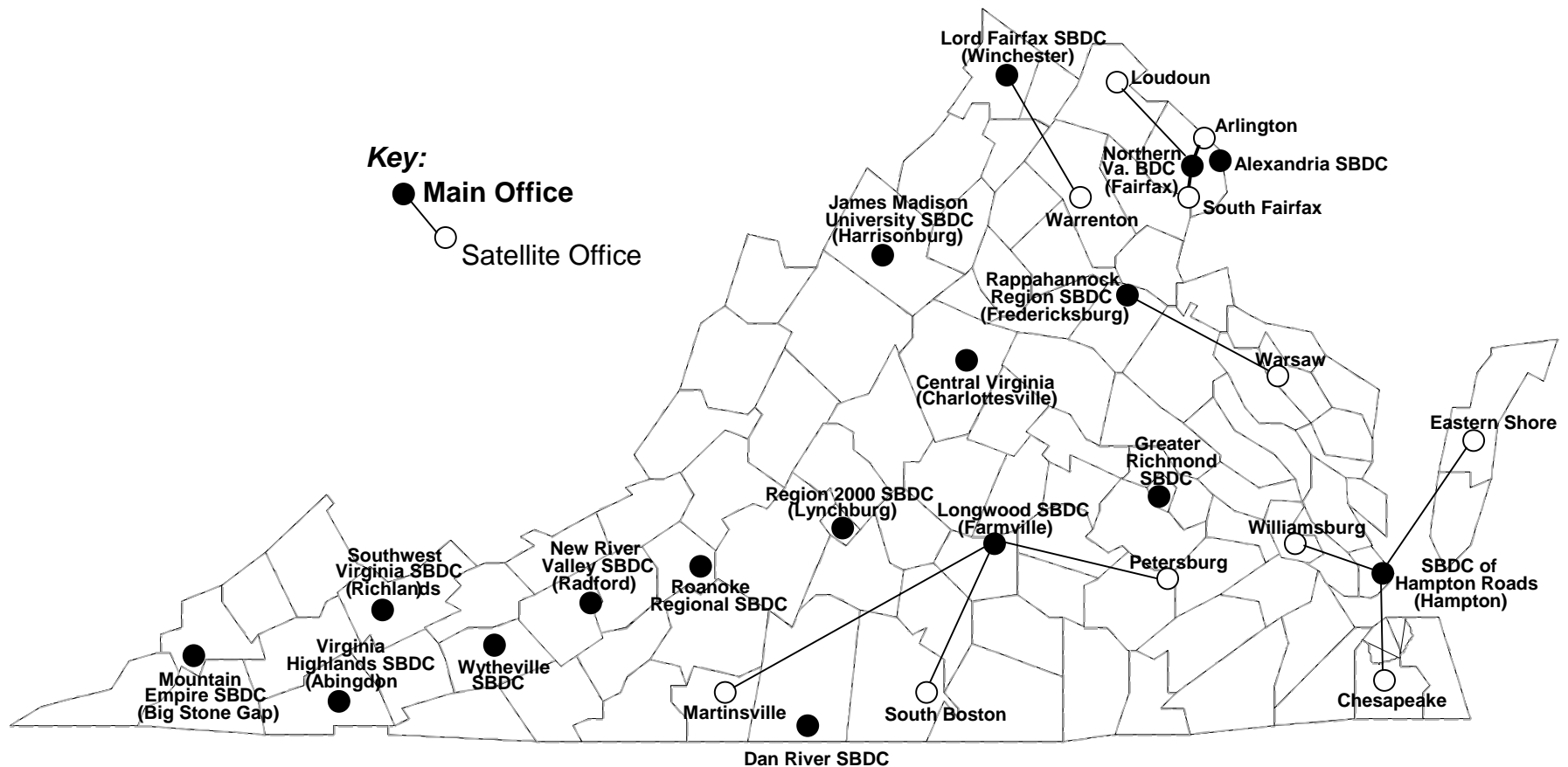
Virginia SBDC Program

6

- Established in 1988, Virginia's small business assistance centers joined the SBDC program in 1990
- The Virginia SBDC program consists of a lead center at the Department of Business Assistance (DBA), 17 service centers and 11 satellite offices located throughout the Commonwealth
- The mission of the Virginia SBDC program is to contribute to the growth and development of Virginia's economy by providing management, technical, and other assistance to existing and potential small- and medium-sized businesses

Virginia SBDC Office Locations

7



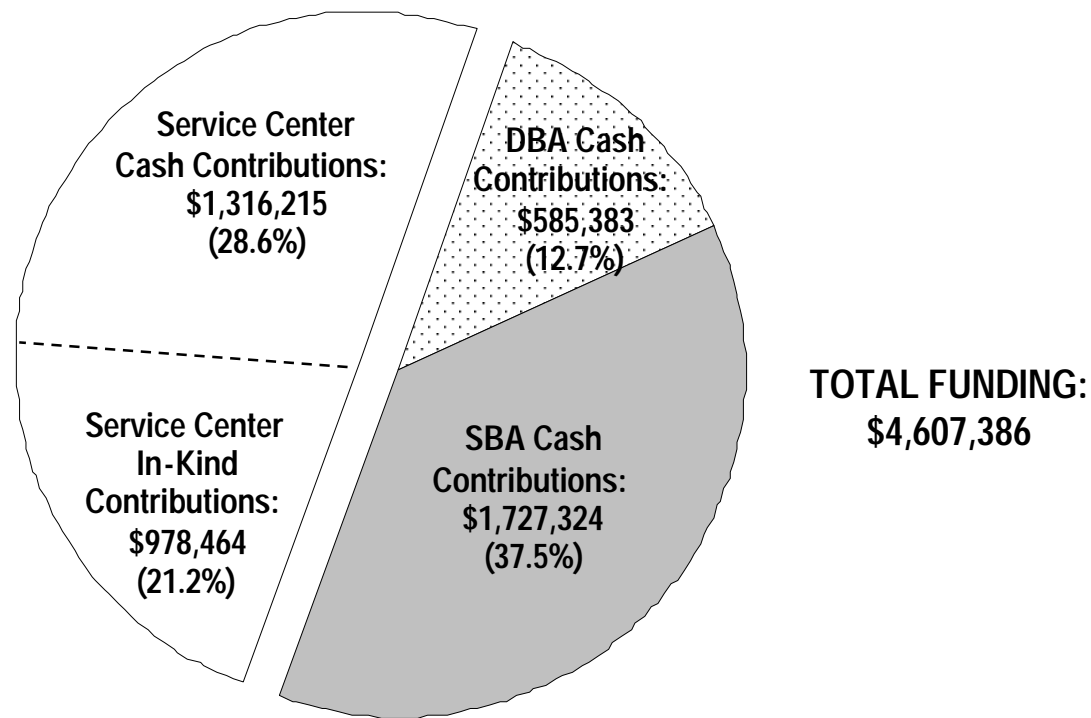
Virginia SBDC Services

8

- **Services provided include counseling and training in:**
 - business planning
 - marketing assistance
 - developing business financing sources
 - cash flow and tax planning
 - specialized subject area workshops
- **In 2000, the Virginia SBDC reported providing counseling services to 4,440 clients and held 551 training events. Most of the SBDCs' clients are businesses in the services and retail industries**

Virginia SBDC Network Expenditures for CY 2000

9



Note: State and federal funding amounts for the Virginia SBDC State office are not included in this chart.

Research Activities

10

- **Structured interviews**
- **Site visits to local service centers**
- **Analysis of programmatic and financial data**
- **Review of documents**

Summary of Findings

11

- During the course of the Virginia SBDC's existence, State control over the program has increased. Much of the increase results from federal requirements and a response to problems encountered in the early to mid 1990s
- As the program has become more structured, the decision-making authority of the local hosts has lessened. The State office needs to moderate this trend and ensure that the program is meeting the needs of the local small business community

Summary of Findings

(continued)

12

- **The Virginia SBDC program appears to provide a beneficial service for the State and is generally administered in a manner consistent with federal and State program objectives**
- **The economic impact of the program appears to have declined somewhat in recent years. The program needs to refocus its efforts on generating a positive economic impact on the State**
- **Consistent with a renewed focus, the Virginia SBDC needs to better target the program's clientele and modify its oversight methods**

Presentation Outline

13

- ☐ Study Overview and Summary of Findings
- ☒ Development of the Virginia SBDC Program
- ☐ Virginia SBDC Performance and Operations

Early Years of the Virginia SBDC Program: Initial Program Focus

14

- **Virginia's small business assistance program was developed in 1988 as a State program and initially administered by the Department of Economic Development, which designed it as a local economic development strategy to generate jobs and enhance the State's tax base**
- **The Virginia program was intended to target services toward small businesses that had the greatest potential to produce economic benefits, especially the creation of jobs**

Program Accountability Not a High Priority in Program's Early Years

15

- **The State joined the federal SBDC program on January 1, 1990 to obtain the financial resources needed to expand its program statewide. However, the objectives of the State's original small business assistance program were not wholly consistent with those of the federal program**
- **The State rapidly expanded its program and achieved full statewide coverage by 1993**
- **The State imposed minimal requirements on its local SBDCs during the early 1990s and did not devote adequate attention to developing necessary accountability**

Problems with State Oversight Became Evident in Mid-1990s

16

- **In 1996, the SBA cited the State office for failure to adequately monitor the Virginia SBDC's financial activities**
- **The Capital Area SBDC routinely had trouble obtaining local funding, reaching a critical stage in 1997 when it was unable to pay its monthly bills. The State office's oversight was inadequate. Ultimately, a State bailout was necessary**
- **The State office paid the Northern Virginia SBDC \$82,345 to procure a new management information system for the network. The system was flawed and had to be discontinued**
- **The State office experienced frequent staffing changes**

Program Administration Was Strengthened in the Late 1990s

17

- **The U.S. SBA requires all SBDC programs to become “certified” by the Association of Small Business Development Centers every four years to participate in the program**
- **The association developed a set of programmatic and financial standards necessary to pass national certification**
- **The Virginia SBDC network spent a substantial part of 1998 preparing for its first certification review**
- **The certification process was a major factor leading to greater consistency and structure across all local centers**

Program Is Now More Structured

18

- **By the late 1990s, the Virginia SBDC program had evolved into a statewide network with established policies and procedures and increased State and federal oversight**
 - **The network's policies and procedures provide standards for the centers to follow that govern their reporting and record-keeping, budgeting and accounting, and counseling and training activities**
- **Most of the program requirements originate from federal directives and/or certification and have increased over time**
 - **For example, the original agreement required centers to submit two types of reports to the State. The current agreement requires nine types of reports. Most are federally required**

Program is Now More Structured (continued)

19

- **The State has implemented the federal and certification requirements through changes to its annual agreement with local hosts and the development of a policy and procedures manual**
- **While these requirements helped develop the Virginia SBDC program into a network of centers that operate in a more consistent manner, they have also resulted in a more “bureaucratic” program**

Conflict Concerning Program Administration

20

Example

In particular, the Dr. William E.S. Flory SBDC voiced strong objections to requirements that the State office placed in the 1998 and 1999 annual agreements. Relations between the Flory Center and the State office became strained during contract negotiations, culminating with an impasse regarding the provisions of the 1999 agreement. The Flory Center withdrew from the network in 1999

A significant problem ensued because the agreement is not signed by the State and local centers until well into the program year. Hence the Flory Center performed SBDC services for several months without reimbursement from the State. As a result of not signing the contract, the center did not receive reimbursement for the work it performed in 1999

The Flory Center filed suit against DBA to receive reimbursement for the work performed, however, the case was decided against the Flory Center

Conflict Concerning Program Administration (continued)

21

Example (continued)

Conflict between the Flory Center and the State office was exacerbated by a State Police investigation of the Flory Center undertaken around the time of the contract dispute. The investigation included the execution of a search warrant and a “raid” on the Flory Center’s office and the director’s home that were initiated based on two unnamed informants

The Flory Center director believes that the State office was involved in the State Police investigation due to the timing of the search warrant and raid. However, DBA staff reported that they were unaware of the investigation and the raid until the State Police interviewed them sometime after the raid

The manner in which the search warrant and investigation were executed remains under litigation

Role of the Local Host Has Diminished

22

- The establishment of the policy and procedures manual along with a lengthy and detailed annual agreement brought a higher level of accountability and control
- As a result, the local host's decision-making role has diminished. To some extent, there appears to be an inconsistency between the levels of local authority for the program compared to the local financial contribution
- To moderate this trend, the State office needs to work more closely with local program hosts to ensure that the program provides maximum local flexibility to meet the needs of the local small business community, while also adhering to federal program requirements

Recommendation

23

- **The State office, in cooperation with local hosts, should evaluate the State requirements placed on the program with the goal of identifying requirements that could be made less restrictive to local hosts, while still maintaining an adequate level of accountability**

State Office Should Serve a More Facilitative Role for the Local Centers

24

- **During the course of this study, several center directors reported that:**
 - **The State office should take a more active role to support local SBDC activities**
 - **The State office should serve as a conduit for information on “best practice” management and counseling techniques and generally serve as a “network-wide information clearinghouse”**
 - **Adhering to State and federal requirements is a time-consuming process that limits their ability to provide clients with quality assistance**

State Office Should Serve a More Facilitative Role for the Local Centers

(continued)

25

- **There are steps that the State office could take to improve the local SBDCs' operations and minimize the administrative burden of the program on the local centers. For example, the State office could:**
 - **distribute information to the network concerning other states' practices that may be useful to implement in Virginia**
 - **identify reporting and other administrative requirements that are not federally driven and either eliminate or streamline them**
 - **contract with the SBA on a multi-year basis to reduce some paperwork requirements**

Recommendation

26

- **The State office should solicit input from the local center staff regarding ways the State office could better assist the centers in accomplishing their mission. In particular, the State office should identify avenues for reducing the administrative burden of the program and identify “best practices” in other states that could be incorporated into Virginia’s program**

Presentation Outline

27

- ☐ Study Overview and Summary of Findings
- ☐ Development of the Virginia SBDC Program
- ☒ SBDC Performance and Operations

Virginia SBDC Program Appears to Benefit Small Business Community

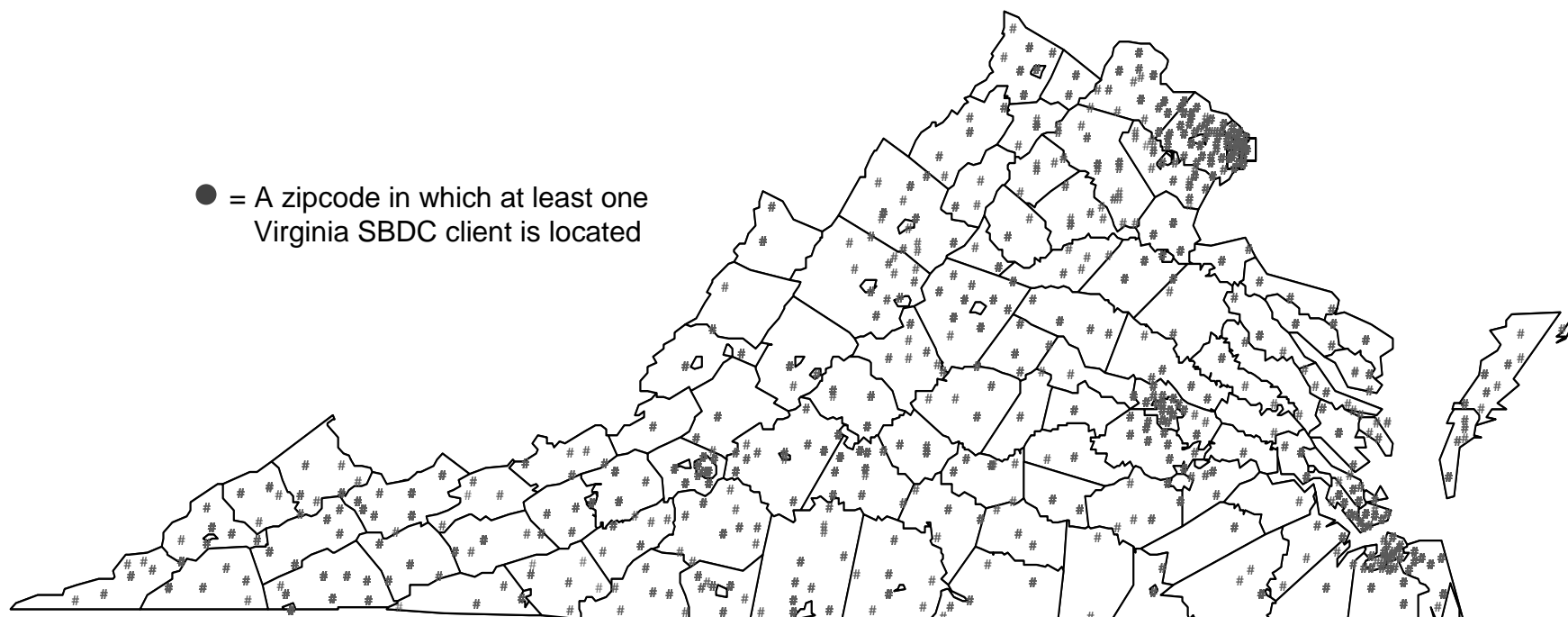
28

- **According to Virginia Employment Commission data, small businesses account for over 97 percent of employer businesses in Virginia and 46 percent of the workforce**
- **In discussions with representatives of local chambers of commerce and other business-related organizations, the general consensus was that there was a need for the type of services provided by SBDCs and that the SBDCs were serving a useful purpose**

Virginia SBDC Program Provides Full Statewide Coverage

29

Geographic Distribution of Virginia SBDC Clients, 2000



Number of Local Service Centers

30

- One question raised during the study was whether the program's efficiency could be improved if there were fewer centers, but with more staff at each center
 - Because most centers have very few staff, it is generally not possible for each office to have all the expertise that may be needed
 - Concerns were raised that small offices may have to spend a disproportionate amount of time on administrative work

Number of Local Service Centers

(continued)

31

- JLARC staff found that small offices provide a similar proportion of time on counseling compared to larger offices. Also, the program has taken steps to alleviate the lack of expertise in all offices by:
 - use of videoconferencing equipment
 - use of email across the network
 - strategically locating selected types of expertise
- With the current arrangement, centers are within relatively close proximity to all small businesses in the Commonwealth, as the original program envisioned

Virginia SBDC Clients Generally Satisfied with Services

32

- **The Virginia SBDC State office contracts with a university professor to conduct an annual client satisfaction survey**
- **Clients who responded to the survey in 2001 were generally satisfied with the services received from the centers**
- **Clients also indicated that their expectations were met by the centers, and their business capabilities were enhanced by the assistance they received**
- **Most clients indicated that they would recommend the SBDC to both experienced and inexperienced small business people**

Virginia SBDC Has Made Program Improvements in Recent Years

33

Example

Typically, the State does not receive funding approval from the SBA until a few months into the program year. This timing historically meant that local hosts had to provide 100 percent of the funding for the centers during the first few months, with no guarantee that they would be reimbursed. Hosts would only get reimbursed if they subsequently signed the annual agreement with the State, which usually is issued in March. This arrangement played a major role in the Flory Center not being reimbursed for the work performed without an agreement during 1999

While the federal funding issue is not within the State's control, the State office helped ameliorate this problem in 2000 by providing each host with a letter authorizing them to continue their operations at the previous year's expenditure levels for January and February and guaranteeing payment for those expenses

Economic Impact of SBDC Assistance Has Declined Somewhat in Recent Years

34

- **Virginia SBDC program documents stress that a positive economic impact is “the main priority of the SBDC program.” Its funding proposal to the SBA notes that:**

Virginia places a strong emphasis on measuring the economic impact generated by the VSBDC program. Economic milestones serve as the primary performance measure of the VSBDC program and are included as a part of each individual contract with the local centers

- **The State office collects and reports data on the number of jobs created by clients, number of jobs retained, amount of capital investment, and increase in sales**

Economic Impact of SBDC Assistance Has Declined Somewhat in Recent Years

(continued)

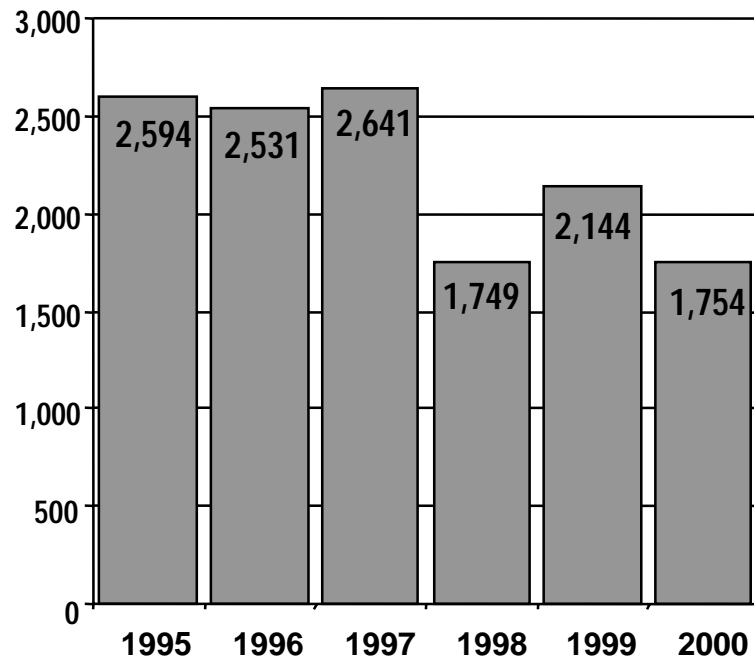
35

- **Analysis of the economic performance measures suggests that the State's return on investment in recent years has been inconsistent and even declining on some measures**
 - **A portion of the declining economic impact of the program appears to be attributable to the withdrawal of the Flory Center from the SBDC network in 1999. Prior to its withdrawal from the network, this center was a major contributor to the overall economic impact reported for the program**
- **There are three centers for which the economic impact appears particularly low in relation to the centers' expenditures – the Lord Fairfax, Mountain Empire, and Wytheville SBDCs**

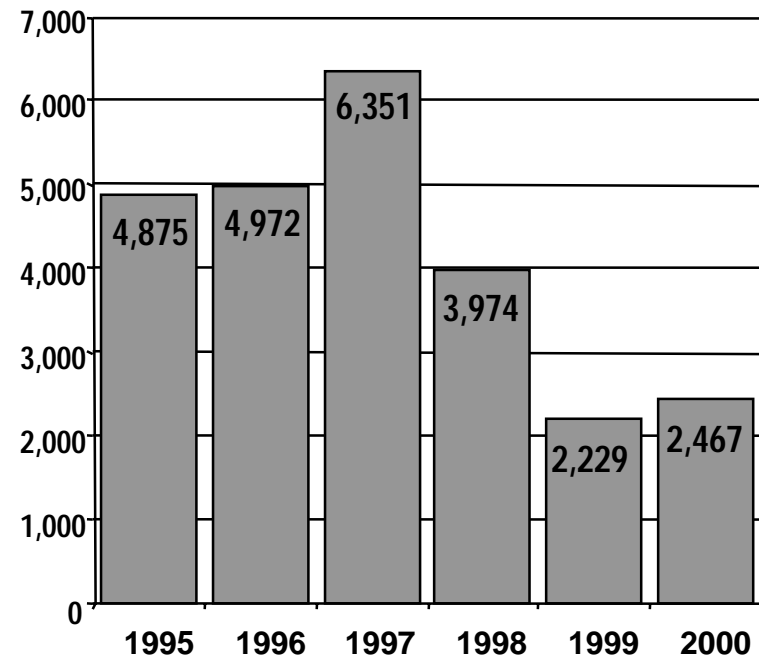
Virginia SBDC Economic Impact Measures, 1995-2000

36

Total Jobs Created



Total Jobs Retained

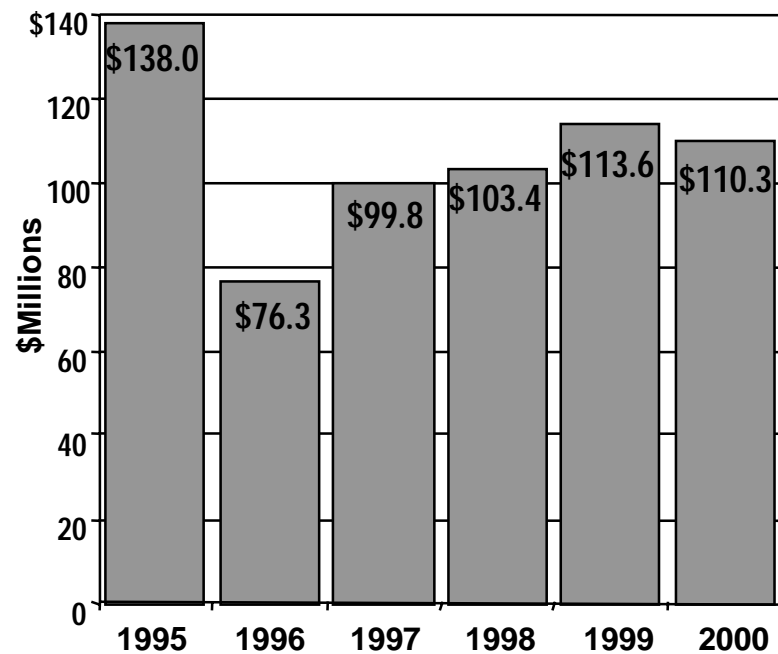


Virginia SBDC Economic Impact Measures, 1995-2000

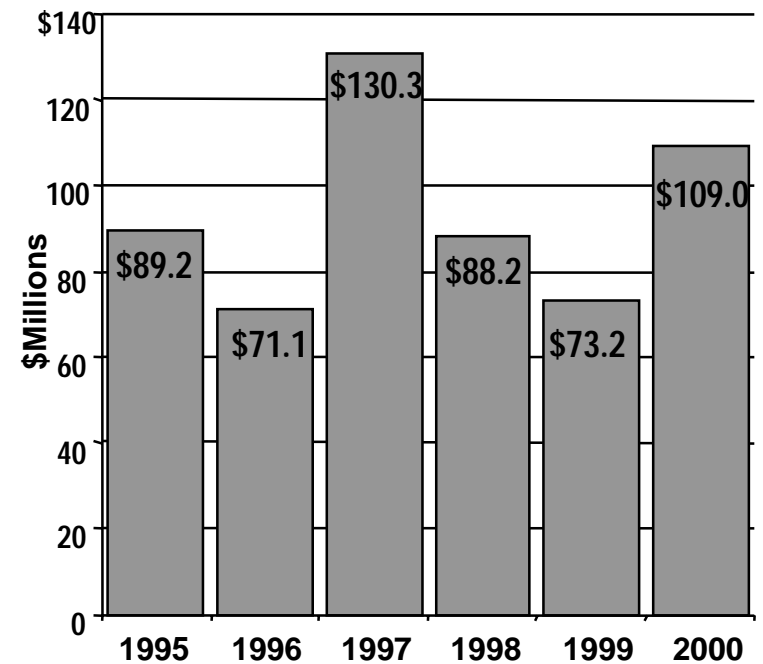
(continued)

37

Total Capital Investment by Clients



Total Increased Sales by Clients



Programmatic Measures of Performance

38

- JLARC staff also examined a variety of programmatic characteristics, including:
 - average counseling hours per client
 - proportion of all clients that are considered “long-term” clients
 - average number of attendees per training session
- Five centers showed potential weaknesses in at least two of the three indicators – the Central Virginia, Hampton Roads, Loud Fairfax, Northern Virginia, and Roanoke Regional SBDCs
 - Of these centers, only the Roanoke Regional SBDC has received a formal on-site monitoring visit from the State office since 1998
- The Central Virginia SBDC has been unable to meet its local funding match requirement in recent years

Recommendations

39

- **The State office should closely work with and monitor the SBDCs showing potential weaknesses in services provided and/or economic impact. Strategies should be developed jointly by the centers and State office staff to improve services and better target clients that would benefit the State's economy from SBDC assistance**
- **The State office should begin discussions with the host of the Central Virginia SBDC on a plan to close the SBDC unless additional local funding sources can be obtained. If adequate funds are not obtained, other options should be pursued for providing assistance to small businesses in the Charlottesville area**

Virginia SBDC Needs to Better Target Its Clientele

40

- While the number of clients served by the Virginia SBDC has increased, a corresponding increase in economic impact has not occurred. These results suggest that the network may not be targeting its services to those businesses with the most potential for economic benefit
- The original program proposal called for a primary focus on existing small businesses with between five and 100 employees. In practice, SBDCs primarily serve very small businesses – those with only one or two employees
- Further, almost half of their clientele are not currently in business (termed “pre-venture” clients)

Virginia SBDC Needs to Better Target Its Clientele

(continued)

41

- **Efforts have been under way in the past few years to direct pre-venture clients to business training seminars rather than counseling sessions. These efforts have shown limited success to date**
- **The Virginia SBDC network formed two committees this year to identify ways to effectively serve pre-venture clients and to better market services to existing businesses. Establishment of these committees is a positive step toward actively managing the client base**

Recommendation

42

- **The Virginia SBDC State office should collect information on efficient and effective methods being used by other states for addressing the needs of pre-venture clients. This information should be shared with the relevant SBDC committees**

State Office's On-Site Monitoring Needs to Be Strengthened

43

- **The Virginia SBDC Policy and Procedures Manual notes that the State office will perform financial and programmatic reviews of all local centers on an annual basis**
- **These formal reviews have not been conducted regularly in the past few years**
 - **Only three financial reviews and no programmatic reviews were conducted in 1999**
 - **While financial reviews were conducted at most centers in 2000, only six programmatic reviews were conducted**
 - **No formal reviews have been performed to date in 2001**
- **There are no established criteria for selecting centers for review**

State Office's On-Site Monitoring Needs to Be Strengthened

(continued)

44

- **The State office needs to conduct yearly financial reviews of the centers**
- **Given limited staffing, the State office should give priority to programmatic reviews of centers that appear to be experiencing problems**
- **In conducting the programmatic reviews, the State office should discuss the centers' performance with the local hosts and other local business leaders**
- **The programmatic reviews should also include an assessment of the methods and assumptions used in identifying and measuring each center's economic impact**

Recommendation

45

- **The State office should ensure that it conducts yearly financial reviews of all SBDCs. Further, it should restructure its programmatic reviews, including modifying the frequency of the reviews and the types of information used to assess the SBDCs. In particular, State office staff should get input from local hosts and business leaders concerning the effectiveness of the SBDCs. The review should also include an examination of the methods used to identify the economic impact of center assistance**

Economic Impact Measures Need Improvement

46

- **The State requires centers to annually survey their clients to collect information on:**
 - the number of jobs created during the year
 - number of jobs retained
 - amount of capital investment
 - amount of sales increase

- **There are problems with the methods used to assess economic impact**
 - Each center has developed its own survey instrument for collecting the data, which negatively impacts the consistency of the data collected
 - Only one center's survey appropriately ties the information requested to the counseling provided by the center

Recommendations

47

- **The State office should revise its standard economic impact survey to seek the level of impact that the client believes is attributable to the SBDC's assistance. It should then require that all SBDCs use the standard form. State office staff should ensure the use of the form through its on-site monitoring process**
- **The State office and center staffs should work together to devise a strategy for increasing the client response rate for the economic impact survey**

Response Rate for Annual Client Satisfaction Survey Needs Improvement

48

- **The annual client satisfaction survey yields response rates of about 20 percent**
- **While this response rate produces enough respondents to reliably assess overall client satisfaction, it does not allow for an adequate assessment at the center level**

Recommendation

- **The State office should work with its contractor to develop a strategy for increasing the response rate of the annual client satisfaction survey**